

Message Text

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E.O. 11652: GDS

TAGS: EAGR, UR

SUBJECT: GRAIN NEGOTIATIONS

FOR ALAN LUKENS

PASS UNDER SECRETARY ROBINSON FROM ENDERS

EYES ONLY

FOLLOWING ARE COMMENTS AND SUGGESTIONS ON RELATIONSHIP

OF POSSIBLE MULTI-YEAR GRAIN SUPPLY AGREEMENTS WITH
SOVIETS TO INTERNATIONAL GRAIN RESERVES ARRANGEMENT WE
SEEK.

1. SOVIET UNION ACCOUNTS FOR MORE THAN 80 PERCENT OF
THE VARIABILITY IN WORLD GRAIN IMPORT DEMAND. IT IS
THUS ESSENTIAL THAT THE SOVIETS BE A PARTY TO AN
INTERNATIONAL GRAIN RESERVES ARRANGEMENT. THE SOVIET
INTEREST IN PARTICIPATION IN A RESERVES ARRANGEMENT
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WILL CLEARLY DEPEND ON THEIR ESTIMATE WHETHER AN

INTERNATIONAL ARRANGEMENT WILL BE NEGOTIATED AND WHETHER

ARRANGEMENT WILL BE BENEFIT PARTICIPANTS AS OPPOSED TO NON-PARTICIPANTS. IT IS THUS IMPORTANT THAT IN ANY BILATERAL AGREEMENT WITH THE USSR WE NOT GO SO FAR IN MEETING THEIR REQUIREMENTS OVER A PERIOD OF THE NEXT FEW YEARS SO AS TO LIMIT OR REMOVE THEIR INCENTIVE TO ENTER INTO AN INTERNATIONAL RESERVES ARRANGEMENT.

2. A SECOND CONSIDERATION IS TO AVOID GIVING OTHER COUNTRIES THE IMPRESSION THAT THEIR SECURITY OF SUPPLIES

CAN BE MET THROUGH BILATERAL ARRANGEMENTS WITH US, OR WITH OTHER SUPPLIERS, THUS FURTHER UNDERMINING BASIS FOR INTERNATIONAL ARRANGEMENT.

3. WE THINK THESE PROBLEMS CAN BE MET BY NEGOTIATING AN ARRANGEMENT WITH THE SOVIETS AT A LEVEL WHICH IS HIGH ENOUGH TO PROVIDE U.S. WITH THE ADVANTAGE OF A RELIABLE MARKET FOR U.S. GRAIN IN SUPPORT OF A FULL PRODUCTION POLICY, BUT NO SO HIGH AS TO MEET PEAK SOVIET DEMAND AND THUS REMOVE THEIR INCENTIVE TO PARTICIPATE IN ANY INTERNATIONAL ARRANGEMENT.

4. IN THE PAST FIVE YEARS SOVIET GRAIN PRODUCTION HAS VARIED FROM 168 MILLION METRIC TONS (1972/1973) TO 222 MILLION METRIC TONS (1973/1974) AND PURCHASES FROM THE U.S. FROM .3 MILLION METRIC TONS (1971/1972) TO 12.8 MILLION METRIC TONS (1972/1973). CURRENT CONSUMPTION IS ESTIMATED AT ABOUT 210 MILLION METRIC TONS. WITH UNRESTRICTED ACCESS TO OUR GRAIN MARKET, MINIMUM SOVIET PURCHASES OVER THE NEXT FIVE YEARS ARE LIKELY TO BE 3-4 TONS A YEAR. MAXIMUM PURCHASES COULD BE 15 MILLION TONS OR MORE, SHOULD WE PERMIT THIS.

5. WE BELIEVE THAT A SOVIET COMMITMENT TO BUY A FIXED AMOUNT OF GRAIN YEAR-IN AND YEAR-OUT AT A LEVEL OF 6 TO 8 MILLION TONS WOULD BE ABOUT RIGHT. IT WOULD PROVIDE A USEFUL PRODUCTION INCENTIVE FOR U.S.
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FARMERS, AND GREATER STABILITY OF SOVIET DEMAND IN OUR MARKET. IT WOULD PERMIT THE SOVIETS TO MEET THEIR CURRENT REQUIREMENTS AND TO BUILD SOME STOCKS BUT IT WOULD NOT BE SO HIGH A LEVEL AS TO MEET PEAK DEMAND IN POOR CROP YEARS. TO BE ASSURED OF THEIR REQUIREMENTS FOR PEAK DEMAND, THEY WOULD NEED TO JOIN IN AN INTERNATIONAL ARRANGEMENT. IT IS ALSO IMPORTANT FOR THIS REASON THAT THE SOVIET COMMITMENT

BE EXPRESSED IN TERMS OF A SINGLE ANNUAL FIGURE RATHER THAN A RANGE WHICH WOULD PERMIT THE SOVIETS TO VARY THEIR IMPORTS TO COVER PRODUCTION SHORTFALLS.

6. TO EMPHASIZE THAT A BILATERAL SUPPLY AGREEMENT

IS NOT INTENDED TO OBTAIN THE NEED FOR AN INTERNATIONAL RESERVES ARRANGEMENT, THE BILATERAL COMMITMENT WOULD INCLUDE A COMMITMENT BY THE SOVIETS PLEDGE TO PARTICIPATE IN AN INTERNATIONAL RESERVES ARRANGEMENT.

7. NOTE THAT THE SOVIETS COULD UNDERCUT BOTH THE IMPACT OF THE STABILITY OF TRADE WE SEEK AND ANY STOCK BUILDING EFFECT OF THE BILATERAL ARRANGEMENT BY EXPORTING ITS OWN PRODUCTION IN GOOD CROP YEARS. YOU MIGHT WISH TO CONSIDER THEREFORE SOME PURCHASE ON SOVIET EXPORTS BUT, GIVEN THEIR TRADITIONAL EXPORT POSITION, IT MAY BE DIFFICULT TO TIE THIS ONE DOWN.

8. ANOTHER PROVISION YOU MIGHT WISH TO CONSIDER IS ONE THAT CALLS FOR THE SOVIETS MAKING THEIR PURCHASES IN THE U.S. BY MEANS OF REGULAR (E.G. WEEKLY OR MONTHLY) OPEN TENDERS. THIS WOULD AVOID THE PROBLEMS OF SECRECY WHICH HAVE CAUSED SOME OF THE POLITICAL PROBLEMS HERE IN THE PAST. THE SOVIETS MAY BE RESISTANT TO THIS TECHNIQUE BUT YOU COULD EXPLAIN THAT IT IS ONE THAT HAS BEEN USED SUCCESSFULLY BY OTHER STATE TRADING IMPORTERS, E.G. BRAZIL, JAPAN FOOD AGENCY, ET AL.

9. FINALLY, YOU SHOULD CONSIDER ONE MORE EFFORT ON ATTAINING TIMELY INFORMATION ON FORWARD ESTIMATES OF SOVIET GRAIN PRODUCTION AND TRADE. A USEFUL PROVISION SHOULD REQUIRE FORWARD ESTIMATES OF PRODUCTION, USE, CONFIDENTIAL

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TRADE AND STOCK LEVELS OVER A 12 MONTH FUTURE PERIOD. THESE ESTIMATES SHOULD BE MADE AVAILABLE AT 6 MONTH INTERVALS IN CONJUNCTION WITH BILATERAL CONSULTATIONS. KISSINGER

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